

June 21, 2002



# Financial Management

Controls Over the Computerized  
Accounts Payable System at Defense  
Finance and Accounting Service  
Columbus  
(D-2002-113)

**Office of the Inspector General  
of the  
Department of Defense**

CONSTITUTION OF THE  
UNITED STATES OF AMERICA

NO MONEY SHALL BE DRAWN FROM THE TREASURY, BUT IN CONSEQUENCE OF APPROPRIATIONS MADE BY LAW; AND A REGULAR STATEMENT AND ACCOUNT OF THE RECEIPTS AND EXPENDITURES OF ALL PUBLIC MONEY SHALL BE PUBLISHED FROM TIME TO TIME.

ARTICLE I, SECTION 9

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### **Acronyms**

CAPS(W)	Computerized Accounts Payable System for Windows
CCR	Central Contractor Registry
CEFT	Corporate Electronic Funds Transfer
C.F.R.	Code of Federal Regulations
DFARS	Defense Federal Acquisition Regulation Supplement
DFAS	Defense Finance and Accounting Service
DPPS	Defense Procurement Payment System
EDM	Electronic Document Management
EFT	Electronic Funds Transfer
FAR	Federal Acquisition Regulation
FEV	Front-End Validation
GAO	General Accounting Office
IG	Inspector General
U.S.C.	United States Code



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June 21, 2002

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)  
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING  
SERVICE  
DIRECTOR, DEPARTMENT OF DEFENSE EDUCATION  
ACTIVITY

SUBJECT: Report on Controls Over the Computerized Accounts Payable System at  
Defense Finance and Accounting Service Columbus  
(Report No. D-2002-113)

We are providing this report for review and comment. This is the third report in a series related to controls over the Computerized Accounts Payable System. We considered management comments on a draft of this report when preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The Under Secretary of Defense (Comptroller) comments were responsive. Comments from the Director, Commercial Pay Services, for the Defense Finance and Accounting Service were generally responsive. However, we request additional comments on Recommendations 2.b., 2.c.(1), 2.g.(2), 2.g.(3), and 2.h. Comments from the Director, Department of Defense Education Activity, were generally responsive. We request that the Director, Department of Defense Education Activity, reconsider his position and provide additional comments on Recommendation 3. We request that management provide all comments by July 22, 2002.

If possible, please provide management comments in electronic format (Adobe Acrobat file only). Send electronic transmission to the e-mail addresses cited in the last paragraph of this memorandum. Copies of the management comments must contain the actual signature of the authorizing official. We cannot accept the / Signed / symbol in place of the actual signature. If you arrange to send classified comments electronically, they must be sent over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the audit staff. For additional information on this report, please contact Mr. Marvin L. Peek at (703) 604-9587 (DSN 664-9587) (mpeek@dodig.osd.mil) or Mr. Carmelo G. Ventimiglia at (317) 510-3852 (DSN 699-3852) (cventimiglia@dodig.osd.mil). See Appendix G for the report distribution. The audit team members are listed inside the back cover.

A handwritten signature in dark ink, appearing to read "Thomas F. Gimble", is positioned above the printed name.

Thomas F. Gimble  
Acting  
Deputy Assistant Inspector General  
for Auditing

## **Office of the Inspector General of the Department of Defense**

**Report No. D-2002-113**

(Project No. D2000FI-0248.002)

**June 21, 2002**

### **Controls Over the Computerized Accounts Payable System at Defense Finance and Accounting Service Columbus**

#### **Executive Summary**

**Who Should Read This Report and Why?** DoD civilian and military personnel who are responsible for making vendor payments or supervising any aspect of the commercial payment process should read this report. The report discusses how to properly support payments, and the need to comply with statutory and regulatory requirements when making vendor payments.

**Background.** The Defense Finance and Accounting Service (DFAS) Columbus uses the Computerized Accounts Payable System for Windows to make vendor payments for various Defense agencies. During FY 2001, DFAS Columbus made 143,077 payments, valued at \$2 billion, using the Computerized Accounts Payable System for Windows. On April 1, 2001, the Director, DFAS, capitalized all commercial payment resources under the Director, Commercial Pay Services. DFAS plans to begin replacing the Computerized Accounts Payable System for Windows with the Defense Procurement Payment System beginning in October 2003. The estimated completion date for the transition is March 2004.

This is the third in a series of audit reports addressing the controls over the Computerized Accounts Payable System. The previous two reports concluded that weaknesses existed in the management controls associated with making vendor payments using the Computerized Accounts Payable System for Windows.

**Results.** DFAS Columbus did not implement effective and consistent management controls to make properly supported vendor payments and to detect and correct erroneous payments. An estimated 37,918 payments made from May 1 through July 31, 2000, lacked proper supporting documentation. DFAS Columbus also made an estimated 4,369 erroneous payments, including 1,314 Fast Payments without subsequently verifying proper receipt of goods. The Director, Commercial Pay Services, needed to implement procedures to ensure that all documents supporting vendor payments were received in the mailroom, screened for compliance with 5 Code of Federal Regulations Part 1315, and immediately scanned into the Electronic Data Management system for indexing and payment processing. DFAS Columbus should also manually certify all payments and verify and use the information in the Central Contractor Registry to update vendor information in Computerized Accounts Payable System for Windows, and make Electronic Funds Transfers as required in the Debt Collection Improvement Act of 1996. Further, Fast Payment procedures should be improved to ensure that goods paid for are received and accepted by Government activities. See the finding section for the detailed recommendations.

**Management Comments and Audit Response.** The Acting Deputy Chief Financial Officer concurred with one of the recommendations. The Deputy Director, Commercial Pay Services, concurred with four recommendations and partially concurred with seven recommendations. DFAS Columbus should not wait until an approved sampling plan is implemented before certifying vendor payments valued at less than \$25,000 or making miscellaneous payments to vendors and individuals in accordance with the Debt Collection Improvement Act of 1996. Also, management did not agree that annual post-payment audit reviews are an inadequate control to ensure that a closed-loop system exists for matching Fast Payment vouchers with corresponding receiving documents. The Director, DoD Education Activity, partially concurred with the need to examine the communications between schools and contracting activities and DFAS paying offices. However, we do not agree that the time needed to deliver goods overseas and delays inherent in the matching process is a proper justification for making Fast Payments. New facsimile technology implemented by DFAS Columbus provides a timely communication vehicle for transmitting receiving reports from overseas locations. See the finding section for a additional discussion of management comments and the management comments section for the complete text. We request that DFAS and the DoD Education Activity provide comments on the final report by July 22, 2002.

**Management Actions.** The Under Secretary of Defense (Comptroller) changed DoD Regulation 7000.14-R, volume 10, chapter 1, to require the use of Electronic Funds Transfer unless a waiver is granted. The change also reiterated the requirements of 5 Code of Federal Regulations Part 1315 describing what constitutes proper supporting documentation. DFAS has begun to provide training on the standards for properly supporting vendor payments and entering information into the Computerized Accounts Payable System for Windows. The Director, DoD Education Activity, took actions that should reduce the number of Fast Payments.

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## Background

**Vendor Payments.** As a general rule, vendor payments must be supported by an obligation document such as a contract, purchase order, or other document obligating DoD to pay for goods or services; an invoice; and a receiving report. The current vendor payment process depends on the receipt and processing of hard-copy documents. Technicians review supporting documents for accuracy and completeness before entering them into the Computerized Accounts Payable System for Windows (CAPS[W]). Certifying officials should compare the computed payment vouchers to the supporting invoices, receiving reports, and contract or obligation documents to ensure the accuracy of the payment information before approving payment. Following certification, the payment information is loaded into the disbursing system. The disbursing system uses the payment transactions generated by CAPS(W) to make disbursements.

**Automated Systems for Making Vendor Payments.** The Defense Finance and Accounting Service (DFAS) uses 15 different systems to make contract and vendor payments. CAPS(W) is one of the systems used by DFAS Columbus in Columbus, Ohio, to make vendor payments for Defense agencies. DFAS Columbus primarily receives payment data from manual sources for entry into CAPS(W). CAPS(W) uses both automated and manual controls to maintain accurate and complete data. DFAS originally planned to test the implementation of the Defense Procurement Payment System (DPPS) at DFAS Columbus in August 2001. However, as of December 2001, transition to DPPS has slipped to FY 2003. The delays in transitioning to DPPS are discussed in Appendix C.

**Realignment of Vendor Payment Operations.** On March 29, 2001, the Director, DFAS, announced the capitalization of all commercial payment resources under the Commercial Pay Business Line. Effective April 1, 2001, the Director, Commercial Pay Services, became responsible for the commercial pay business line. This business line includes two product lines (contract pay and vendor pay). The Vendor Pay Product Line encompasses entitlement determination for contracts not administered by the Defense Contract Management Agency, transportation payments, and miscellaneous payments to businesses and individuals.

**Related Audit Reports.** General Accounting Office (GAO) Report No. GAO/AIMD-98-274, "Improvements Needed in Air Force Vendor Payment Systems and Controls," September 28, 1998, recommended that DFAS strengthen payment-processing controls by establishing separate organizational responsibilities for entering payment data and revising vendor payment access levels to correspond with the new structure.

The Inspector General of the Department of Defense (IG DoD) issued two reports in this series that address vendor payment processes at other DFAS field sites that used the Computerized Accounts Payable System. IG DoD Report No. D-2002-008, "Controls Over the Computerized Accounts Payable System at Defense Finance and Accounting Service Kansas City," October 19, 2001, concluded that the structure and business practices of the vendor payment office at



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DFAS Kansas City did not provide efficient and effective controls over vendor payments. Access over CAPS(W) also needed improvement and vendor payments were often not properly supported. IG DoD Report No. D-2002-0056, "Controls Over Vendor Payments Made for the Army and Defense Agencies Using the Computerized Accounts Payable System," March 6, 2002, concluded that DFAS field sites had not implemented effective and consistent management controls to detect and correct improperly supported and erroneous payments. Also, system access did not properly segregate duties and was not consistently assigned to payment technicians at DFAS field sites.

## **Objectives**

Our objectives were to evaluate the controls associated with making payments using CAPS(W) and track DFAS progress in transitioning to DPPS. Progress in transitioning to the DPPS is discussed in Appendix C. We also evaluated the effectiveness of the management control program as it relates to making vendor payments using CAPS(W). See Appendix A for a discussion of the audit scope and methodology and our review of the management control program. See Appendix B for prior coverage.

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## Processing Vendor Payments

DFAS Columbus did not implement effective and consistent internal controls to make properly supported vendor payments and to detect and correct erroneous payments. An estimated 37,918 payments made from May 1 through July 31, 2000, lacked proper supporting documentation. DFAS Columbus also made an estimated 4,369 erroneous payments, including 1,314 Fast Payments made without subsequently verifying proper receipt of goods. Unsupported and erroneous payments occurred because DFAS Columbus did not:

- use the Electronic Data Management (EDM) system effectively,
- implement proper certification and Fast Payment procedures,
- meet the requirements of the Debt Collection Improvement Act of 1996, and
- ensure that supporting documents were proper and complete before making payments.

As a result, DoD managers assumed an increased risk that payments were not being made in compliance with 5 Code of Federal Regulations (C.F.R.) Part 1315 and DoD managers could continue to make erroneous payments to vendors.

## Procedures, Guidance, and Requirements

**Electronic Data Management.** EDM technology involves the collective application of three tools: imaging, electronic foldering, and workflow. Together, these tools automate the management of incoming documents and standardize business processes for receiving, date stamping, tracking, and storing documents. The EDM program was implemented by DFAS to:

- provide users on-line access to financial documents and information,
- resolve the management of large volumes of hard-copy documents,
- ensure the consistent implementation of business practices throughout DFAS,
- improve customer service, and
- reduce operating costs.

**Certification Requirements.** 31 United States Code (U.S.C.) section 3325, “Vouchers,” states that disbursing officers will not disburse monies except as provided on a voucher certified by an appointed certifying official. Sound fiscal

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management and internal control practices dictate that the certifying officials be independent and organizationally separate from the disbursing officer. 31 U.S.C. section 3528, “Responsibilities and Relief from Liability of Certification Officials,” states that a certification official is responsible for ensuring that:

- proper information is stated on a voucher, supporting documents, and records;
- certified vouchers are computed correctly;
- proposed payments are legal from the appropriations or funds involved; and
- repayment is made if the payment is determined to be illegal, erroneous, or incorrect.

DoD Regulation 7000.14-R, volume 5, chapter 33, implements these requirements. By affixing a manual, digital, or electronic signature to a voucher, the certifying official states that the items listed are correct and proper for payment from the appropriation or other fund designated and the payment is legal, proper, and correct. Certifying officials have pecuniary liability for erroneous payments resulting from negligent performance of their duties.

**Required Payment by Electronic Funds Transfer (EFT).** The Debt Collection Improvement Act of 1996, as codified in 31 U.S.C. section 3332, “Required Direct Deposit,” requires that all Federal payments after January 1, 1999, be made using EFT unless a payment meets specific waiver requirements. The Department of Treasury, in 31 C.F.R. Subpart 208.3, “Payment by Electronic Funds Transfer,” and Subpart 208.4, “Waivers,” allows specific waivers to the EFT requirements. The Federal Acquisition Regulation (FAR) subpart 32.11, “Electronic Funds Transfer,” requires EFT to be used for making contract payments and Defense Federal Acquisition Regulation Supplement (DFARS) subpart 204.73, “Central Contractor Registration,” requires registration in the Central Contractor Registry (CCR). Contractor EFT information is downloaded to the Corporate EFT (CEFT) database for vendor payment technicians to view and obtain remittance information. Based on these criteria, most payments should be sent using EFT, and the CEFT should be used for obtaining vendor remittance information.

**Fast Payment Requirements.** 5 C.F.R. Part 1315.6, “Payment Without Evidence That Supplies Have Been Received (Fast Payment),” states that in limited situations, payments may be made without evidence that supplies were received. However, receiving activities are required to promptly inspect and accept supplies acquired under these procedures and must ensure that receiving reports and payment documents are matched. DoD Regulation 7000.14-R, volume 10, chapter 10, section 1003, “Fast Payment,” states that all invoices to be paid using Fast Payment procedures must be prominently marked “FAST PAY.”

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Section 1003 also identifies the minimum standards for making Fast Payments. Two of the standards follow:

- a closed-loop process that matches payments to material receipts and resolves non-receipt or other discrepancies
- a management control/audit program for post-payment examination of payments made under Fast Payment

FAR 13.4, “Fast Payment Procedure,” defines conditions for using Fast Payments, and preparation and execution of contracts. FAR 52.213-1, “Fast Payment Procedure,” contains the required contract clause and outlines responsibility for preparing invoices.

## Internal Control Environment

**Office Structure and Business Rules.** DFAS Columbus experienced many of the problems identified at other DFAS field sites and described in the previous reports in this series. For example, DFAS Columbus did not develop an office structure with standard business rules to achieve effective control over the documents supporting vendor payments and to maintain consistency in making vendor payments. Incoming vendor payment documents were not properly received, date-stamped, controlled, or tracked during the vendor payment process. DFAS Columbus also did not adequately control and monitor access to CAPS(W). Previous reports in this series recommended that DFAS create a standard office structure that includes a separate certification branch. We also recommended the development of business rules that require certification officials to thoroughly review information supporting payments and certify all disbursement vouchers. In response to IG DoD Report No. D-2002-008, the Director, Commercial Pay Services, stated that the commercial pay business line would develop a standard organization structure for use at all vendor payment sites.

**Controls Supporting Compliance.** DFAS Columbus also experienced problems in using EDM, certifying payments, and making payments in accordance with the Debt Collection Improvement Act of 1996. In addition, DFAS Columbus made erroneous and improperly supported payments and did not properly implement Fast Payment procedures. Failure to comply with the certification requirements in 31 U.S.C. 3325 and the payment requirements in the Debt Collection Improvement Act of 1996 are management control weaknesses that require immediate correction or reporting as part of the Annual Statement of Assurance.

## DFAS Columbus Payment Procedures

**Use of Electronic Data Management.** Controls over the payment process at DFAS Columbus did not ensure that payment documents were properly received

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and tracked within the EDM system. EDM was installed at DFAS Columbus in December 1999, but strict business rules to define the proper flow of documents into the system were not established or enforced. Supporting documents for most CAPS(W) vendor payments should have been processed through the EDM system.

Vendor payment supervisors and technicians circumvented EDM by permitting incoming vendor payment documents to be received on stand-alone facsimile machines located throughout the vendor payment area. Additionally, the mailroom delivered unopened express mail directly to vendor pay supervisors and technicians instead of opening and scanning the documents into the EDM system. Technicians entered information from the hard-copy documents into CAPS(W) and computed payments before documents were scanned into EDM. By not requiring that all incoming vendor payment documents be received and scanned directly into EDM, DFAS Columbus did not ensure that all documents were date-stamped, controlled, screened, and tracked.

Documents supporting miscellaneous payments were also not scanned into EDM until payments were processed. Miscellaneous payment documents were date-stamped by the vendor pay mailroom and routed directly to a Front-End Validation (FEV) technician. The FEV technician was responsible for validating funds and distributing documents to vendor payment technicians for payment processing. Documents were not recorded as received at DFAS Columbus until information was input into CAPS(W) or documents were scanned into EDM. During our site visit, we observed loose vendor payment documents stacked around an FEV technician's desk. On one occasion, we observed the FEV technician box up and take home stacks of vendor payment documents. We informed DFAS and immediate action was taken to ensure that technicians did not take home vendor payment documents. Documents improperly controlled and taken outside DFAS Columbus could have easily been altered, lost, or destroyed.

DFAS Columbus should implement procedures to ensure that all documents supporting vendor payments are received in the mailroom, screened for compliance with 5 C.F.R. Part 1315, and immediately scanned into the EDM system for indexing and payment processing. Business rules are needed to ensure that the internal controls within EDM are not circumvented and the full benefits of a paperless environment are achieved.

**Certification Procedures.** DFAS Columbus procedures for certifying vendor payments did not comply with 31 U.S.C. 3325 and DoD Regulation 7000.14-R, volume 5. DFAS Columbus did not certify payments valued individually at less than \$25,000. If the payment was less than \$25,000, CAPS(W) was programmed to automatically certify the payment voucher and send the voucher to the update file for use by the disbursing system. Consequently, all payments were not reviewed by an authorized certifying official to determine whether they were legal, proper, and correct.

An internal review conducted by DFAS Arlington in February 1999 identified that DFAS Columbus was not properly certifying payments under \$25,000. DFAS Arlington reported that CAPS(W) and two other vendor payment systems did not meet the requirements in DoD Regulation 7000.14-R, volume 5, chapter 33, for

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electronic certification and that manual certification was required for all vendor payments. The condition continued to exist during our audit. We reported our concerns in a memorandum to the Director, DFAS, on March 20, 2001 (Appendix D). We suggested that DFAS take immediate action to ensure that all vendor payments were manually certified before disbursement.

A review of vouchers paid on November 29, 2001, showed that DFAS Columbus had not altered certification procedures as we suggested, and payments under \$25,000 continued to be automatically certified by CAPS(W). In December 2001, DFAS Columbus personnel confirmed that only payments of \$25,000 or more were manually certified. For payments under \$25,000, a daily list of vouchers awaiting payment was signed and sent to disbursing. However, the individual signing the list did not validate the individual payments to ensure that they were legal, proper and correct. The Director, Commercial Pay Services, should require manual certification of vendor payments.

**Method of Payment.** DFAS Columbus did not always make payments as required by the Debt Collection Improvement Act of 1996. DFAS Columbus paid individuals and vendors by check although payment by EFT was required. DFAS needs to develop controls to ensure that all payments are made using EFT unless the recipient meets the waiver requirements in 31 C.F.R. subpart 208.4 permitting DFAS to make a check payment.

**Review of Sample Payments.** A review of 249 sample payments made from May 1 through July 31, 2000, showed that DFAS Columbus did not fully comply with the requirements for making EFT payments. Seventy-six of the sample payments were made using a check without proof that the EFT waiver requirement had been met.

- Twenty-two of the payments were to contractors who should have been registered in the CCR and received an EFT payment. Review of the CCR information showed that 19 of the vendors were properly registered and should have received an EFT payment. Three of the vendors were not registered and no payment should have been made until proper registration occurred or a waiver was granted.
- The remaining 54 payments were classified as miscellaneous payments because they were made to individuals, telephone companies, and bankcard service companies. DFAS Columbus should have required the companies entitled to payment to register in the CCR and the individuals should have provided proper EFT information prior to payment. Most of the individuals receiving payments were Government employees who already received Federal salary EFT payments. Existing EFT information should have been used in making the miscellaneous payments.

**DFAS Columbus Practices.** DFAS Columbus technicians did not always review the information contained in the CEFT to ensure that a payment was sent to the vendor correctly. One technician informed us that she used the remittance information in the contract or invoice to make payments instead of the CEFT. The technician also stated that technicians would not use the CEFT information

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until an automated feed was developed. Vouchers paid on December 13, 2001, indicated that DFAS Columbus continued to pay by check when EFT payments should have been made. For example:

- Check payment number 80759625 was made to the Army Air Force Exchange Service for \$2,252,413 even though the vendor was properly registered in the CCR.
- Check payment number 80758667 was made to Sacramento Municipal Utilities for \$7,385.64 even though the vendor was properly registered in the CCR.

As of January 2002, the requirements in the Debt Collection Improvement Act of 1996 had not been incorporated in DoD Regulation 7000.14-R, volume 10. As these requirements have been in effect for more than 3 years, the Under Secretary of Defense (Comptroller) should update DoD Regulation 7000.14-R, volume 10, and include detailed waiver procedures. In response to IG DoD Report No. D-2002-0056, the Director, Commercial Pay Services, stated that CAPS(W) is scheduled to interface with CEFT in the Version 6.0 release scheduled for November 2002. Until the interface is complete, DFAS Columbus should require that payment technicians and certification officials validate the remittance information when computing and certifying payments in CAPS(W) by ensuring that the information matches the most current information in the CEFT. If a vendor is not properly registered or the registration has lapsed or expired, no payment should be made until the proper CEFT information is provided, unless the vendor or individual receives an appropriate waiver from DFAS. The waiver should be retained with the payment file at the DFAS payment office.

## Sample of Vendor Payments

A review of a stratified random sample of 41,140 payments made by DFAS Columbus from May 1 through July 31, 2000, showed that an estimated 37,918 payments were not supported in compliance with 5 C.F.R. Part 1315 requirements. DFAS Columbus also made an estimated 4,369 erroneous payments, including 1,314 Fast Payments made without subsequently verifying proper receipt of goods.\* Appendix E gives details on sample projections. The results were consistent with the findings in the previous IG DoD reports.

**Sample Methodology.** To determine whether DFAS Columbus made properly supported vendor payments using CAPS(W), we obtained a population of 41,140 CAPS(W) payments, valued at about \$424.4 million, made from May 1 through July 31, 2000. From this population, we selected a sample of 249 payments in 3 strata. We used the criteria in 5 C.F.R. Part 1315 to assess the documents (invoice, receiving report, and obligation document) that supported

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\*The combined total of the estimated improperly supported (37,918) and erroneous (4,369) payments exceeds the 41,140 payments in the population because the erroneous payments were also included in the estimate of improperly supported payments.

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each sample item. We used the sample to estimate the types of payments in the population. Details concerning the sample methodology are contained in Appendix E.

**Proper Supporting Documentation.** The table shows the projections of the estimated number of payments that were not properly supported for each type of payment. Of the 249 sample items reviewed, 145 were contractual payments and 104 were miscellaneous payments. Appendix E gives details of projections and confidence levels.

Estimate of Payments Not Properly Supported		
Type of Payment	Total Payments	Estimate of Improperly Supported Payments
Contractual	23,206	22,674
Miscellaneous	17,934	15,244
Total	41,140	37,918

Documents supporting contractual payments must meet the 5 C.F.R. Part 1315 requirements to be considered proper. We held documentation supporting miscellaneous payments to similar standards. The sample showed that receiving reports supporting 226 of the sample payments did not meet 5 C.F.R. Part 1315 requirements. When our results were projected over the population, 37,918 receiving reports were improper and should have been returned to the receiving activity for correction. DFAS Columbus did not strictly enforce the requirements for proper supporting documents and an environment was created where improperly supported or erroneous payments could be made without detection. Nine payments, valued at \$151,773.03, were questionable payments because the payments were made without proper supporting documents in the payment office or the documents supporting the payments were inconsistent. Appendix F gives details of the unsupported and erroneous payments. DFAS Columbus should train individuals on the standards for properly supporting payments and entering payment data into CAPS(W).

**Erroneous Payments.** Our sample identified 29 erroneous payments made to vendors and other authorized individuals. When projected over the population, 4,369 payments were erroneous. The 29 erroneous payments resulted in overpayments of \$10,629.41 and underpayments of \$3,804.68. A payment was considered erroneous if the vendor was paid the incorrect amount based on the documents supporting the payment. Entering incorrect information in CAPS(W) was the cause of most of the overpayments and underpayments.

Table F-1 (in Appendix F) shows, by category, the number of erroneous payments and the dollar value of overpayments and underpayments. Twenty of the



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erroneous payments were under \$25,000 and bypassed the certification process that might have detected the payment errors. DFAS Columbus needs to take steps to resolve the erroneous payments and other questionable payments identified in Appendix F that can be cost-effectively corrected.

**Fast Payment Procedures.** Based on analysis of the 35 Fast Payments in our sample, DFAS Columbus did not properly implement Fast Payment procedures as required in DoD Regulation 7000.14-R, volume 10, chapter 10. An estimated 1,314 payments were made without verifying proper receipt of the goods after payment, as required. DFAS Columbus also did not ensure that invoices were marked “FAST PAY.” The use of Fast Payment procedures by the DoD Education Activity may not have been appropriate.

**Absence of Adequate Fast Payment Internal Controls.** A closed-loop process did not exist to ensure that all goods were received when DFAS Columbus made Fast Payments. Neither DFAS nor the DoD Education Activity followed up to ensure proper receipt of goods for seven of the Fast Payments in our sample. The DoD Education Activity contracted for all the goods in the sample that were paid for using Fast Payment procedures. When projected over the population, 1,314 Fast Payments were made without verifying proper receipt of goods. In addition, discrepancies between payments and receiving information were not always identified or resolved. For example, a payment to Maritek Inc. for \$4,004 was disbursed on June 12, 2000. The invoice contained charges for 13 separate items totaling \$3,949, plus \$55 for freight charges. As of December 6, 2001, the receiving information only showed one item from the invoice, valued at \$1,590, as being received. Appendix F provides a list of the seven Fast Payments in our sample for which we could not verify proper receipt and acceptance of goods. DFAS Columbus and the DoD Education Agency need to improve procedures and ensure a closed-loop process exists to match payments with corresponding receiving documentation. DFAS should also develop a management control and post-payment audit program that verifies that the Fast Payment procedures function properly.

**Use of Proper Invoices.** DFAS Columbus made payments to vendors using Fast Payment procedures even though most of the invoices did not meet the invoicing requirements in the contracts. Only eight of the invoices supporting the Fast Payments were marked “FAST PAY,” as required by contract. In addition, only one invoice contained all the information required for a proper invoice. Payment technicians should return invoices not meeting all the requirements stipulated in the Fast Payment contract clause.

**Use of Fast Payment Procedures.** The use of Fast Payment procedures by the DoD Education Activity may not have been appropriate. Fast Payment guidance in 5 C.F.R. Part 1315 states that both a geographical separation and a lack of adequate communication between receiving activities and the contracting and paying offices are necessary to make payments without evidence of receipt. All 35 Fast Payments in our sample were for supplies shipped to DoD schools around the world. The individual schools received the supplies and entered the receipt information into an electronic system that interfaced with the Base Operating Supply System and uploaded receiving information for contracting and paying offices to view. Even without an electronic receiving system, receiving

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information could be sent via facsimile machines from schools to contracting and paying offices in a matter of minutes. The DoD Education Activity should examine the communication between the schools and contracting and paying offices and determine whether the use of Fast Payment is appropriate.

## Summary

The actions to be taken by the Director, Commercial Pay Services, to standardize vendor pay operations and improve system controls in response to recommendations in our previous two reports should promote a strong management control environment and reduce the number of improperly supported and erroneous payments. The Director, Commercial Pay Services, should also implement procedures to ensure that all documents supporting vendor payments at DFAS Columbus are received in the mailroom, screened for compliance with 5 C.F.R. Part 1315, and immediately scanned into the EDM system for indexing and payment processing. DFAS Columbus should also manually certify all payments and verify and use the information in the CCR to update vendor information in CAPS(W) and make EFT payments as required in the Debt Collection Improvement Act of 1996. Further, Fast Payment procedures should be improved to ensure that goods paid for are received and accepted by Government activities.

## Recommendations, Management Comments, and Audit Response

**1. We recommend that the Under Secretary of Defense (Comptroller) update DoD Regulation 7000.14-R, volume 10, to require the use of Electronic Funds Transfer for all payments made using vendor payment systems unless the requirement is properly waived in accordance with 31 Code of Federal Regulations Part 208, section 208.4.**

**Under Secretary of Defense (Comptroller) Comments.** The Acting Deputy Chief Financial Officer concurred and stated that DoD Regulation 7000.14-R, volume 10, chapter 1, was updated in March 2002. The regulation now requires the use of EFT for all payments made using DoD vendor payment systems, unless a waiver is granted.

**2. We recommend that the Director, Commercial Pay Services, take the following actions at Defense Finance and Accounting Service Columbus:**

**a. Implement procedures to ensure that all documents supporting vendor payments are received in the mailroom, screened for compliance with 5 Code of Federal Regulations Part 1315, and immediately scanned into the Electronic Data Management system for indexing and payment processing.**

**DFAS Comments.** The Deputy Director, Commercial Pay Services, partially concurred and stated that all documents supporting payments will be received in

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the mailroom. DFAS Columbus will remove the stand-alone facsimile machines and implement the use of EDM Fax and RightFax. After a cursory review, a payment technician will examine documents for compliance during Tier II indexing. He also stated that large documents, such as centrally billed accounts and Powertrack payments, were scanned after payment.

**Audit Response.** The DFAS comments were responsive. We agree that examining documents for compliance with statutory and regulatory requirements is best accomplished during Tier II indexing. Scanning large documents into EDM after payment is a reasonable approach for processing certain payments.

**b. Require the manual certification of all vendor payments made using the Computerized Accounts Payable System for Windows.**

**DFAS Comments.** The Deputy Director, Commercial Pay Services, partially concurred and stated that DFAS Columbus was working with DFAS Arlington to establish a sampling plan that meets the requirements of the Certifying Officer's Legislation.

**Audit Response.** The DFAS comments were partially responsive. GAO Policy and Procedures Manual, Title 7, "Fiscal Guidance," May 18, 1993, limits the use of statistical sampling procedures for examining payment vouchers to those under \$2,500. Consequently, all payments valued at \$2,500 and more must be manually certified. In addition, until a prepayment sampling plan is approved and implemented, individual vendor payment vouchers valued at less than \$2,500 must be certified. Although we identified this issue to the Director, DFAS, on March 20, 2001, DFAS Columbus has not yet been directed to manually certify all payments. We request that DFAS reconsider its position and provide additional comments on the final report.

**c. Develop procedures to require that all payments be made using Electronic Funds Transfer unless the Electronic Fund Transfer requirement has been properly waived. The procedures should:**

**(1) Require vendors and contractors paid using miscellaneous payment procedures to properly register in the Central Contractor Registry.**

**DFAS Comments.** The Deputy Director, Commercial Pay Services, partially concurred and stated that contracting officers are responsible for inserting the appropriate FAR clauses in the contracts that require contractors to register in the CCR. He stated that DFAS Columbus has procedures to require all vendors to register in the CCR. However, some vendors do not have to register in the CCR. To encourage participation, DFAS Columbus provides copies of the CCR registration form to vendors and assists with the registration process. The Deputy Director stated that about 30 percent of miscellaneous payments are non-EFT payments. He identified utility companies as being exempt from complying with the mandatory EFT requirements. He also stated that the Army Air Force Exchange Service was exempt from the EFT requirement because it is a Government entity.

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**Audit Response.** The DFAS comments were partially responsive. 31 U.S.C. section 3332 requires that all Federal payments after January 1, 1999, be made using EFT. The Secretary of the Treasury was given authority to grant waivers. The Treasury has not granted any specific waivers for utility or interagency payments. Further, the vendors DFAS comments refer to were actually properly registered in the CCR and should have received an EFT payment. The cost of making an EFT payment is less than the cost of processing a check payment. We request that DFAS reconsider its position and provide additional comments on the final report.

**(2) Require that miscellaneous payments to individuals receiving Federal salaries be made using Electronic Funds Transfer.**

**DFAS Comments.** The Deputy Director, Commercial Pay Services, partially concurred and stated there was no mandate for Government employees to receive reimbursement for tuition and sundry items using EFT. He also stated that the CEFT database receives and stores remittance information from all DoD military and civilian payroll systems.

**Audit Response.** The DFAS comments were responsive. DFAS should make every effort to pay individuals using EFT, since this method is more cost effective than making check payments. The required EFT data for Federal employees is available in DoD payroll systems and should be passed to the CEFT for use by vendor payment offices..

**d. Require payment technicians and certification officials to validate the remittance information in the Computerized Accounts Payable System for Windows against information in the Corporate Electronic Funds Transfer database when processing payments.**

**DFAS Comments.** The Deputy Director, Commercial Pay Services, partially concurred and stated that the current procedure is to compare EFT information to the data in the CEFT database at the time invoices are processed. He further stated that the next version of CAPS(W) would include a systemic interface with the CEFT.

**Audit Response.** The DFAS comments were responsive. The information in the CEFT database should be used when processing payments.

**e. Train vendor pay personnel on the standards for properly supporting vendor payments and entering information into the Computerized Accounts Payable System for Windows.**

**DFAS Comments.** The Deputy Director, Commercial Pay Services, concurred and stated that vendor payment personnel would receive detailed training. In addition, the commercial pay business line will develop a tracking mechanism to ensure that employees are trained at all vendor pay sites.

**f. Resolve erroneous payments and other questionable payments identified in the audit report that can be cost-effectively corrected.**

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**DFAS Comments.** The Deputy Director, Commercial Pay Services, concurred and stated that a review of the payments was in process. DFAS Columbus will take corrective actions on those payments that can be cost-effectively resolved.

**g. Improve procedures for making Fast Payments by:**

**(1) Returning improperly marked invoices to vendors for correction.**

**DFAS Comments.** The Deputy Director, Commercial Pay Services, concurred and stated that DFAS Columbus would return all improper invoices to vendors.

**(2) Matching Fast Payments to corresponding receiving documents and resolving any discrepancies.**

**DFAS Comments.** The Deputy Director, Commercial Pay Services, partially concurred and stated that DoD Regulation 7000.14-R, volume 10, chapter 1, requires disbursing offices to ensure the performance of post-payment audits. He stated that DFAS ensures a closed-loop process by performing post-payment audits on a sample of all entitled documents and notifying receiving activities when documentation of receipt and acceptance has not been provided.

**Audit Response.** The DFAS comments were partially responsive. DFAS must work with receiving activities to ensure receipt and acceptance of all goods paid for using Fast Payment procedures. Post-payment audits that identify instances where receipt and acceptance have not occurred provide proof that a closed-loop process of matching payment documents to receiving reports does not exist. The management control and audit program should define how discrepancies identified through post-payment audits would be resolved and the actions to be taken to ensure a closed-loop process for matching payment documents to receiving reports. We request that DFAS reconsider its position and provide additional comments on the final report.

**(3) Establishing a management control and audit program for the post-payment examination of payments.**

**DFAS Comments.** The Deputy Director, Commercial Pay Services, partially concurred and stated that the post-payment audit team reviews payments on an annual basis. He also stated that the post-payment audit performed in DFAS Columbus in October and November 2001 showed a 98.6 percent accuracy rate.

**Audit Response.** The DFAS comments were partially responsive. DFAS should develop a comprehensive management control and audit program that verifies the existence of a closed-loop process for matching payments to material receipts by reviewing Fast Payments. The audit program should also define the actions to be taken if receipt and acceptance cannot be confirmed. We agree that post-payment audits can be used in determining whether Fast Payment procedures are functioning properly. However, we believe that the post-payment audits should be performed at least quarterly and include Fast Payments as a distinct aspect of the audit. We request that DFAS reconsider its position and provide additional comments on the final report.

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**h. Report non-compliance with the certification requirements in 31 United States Code 3325 and the payment requirements in the Debt Collection Improvement Act of 1996 as material control weaknesses in the Annual Statement of Assurance until corrected.**

**DFAS Comments.** The Deputy Director, Commercial Pay Services, partially concurred and stated that DFAS Columbus would report the failure to comply with certification requirements in 31 U.S.C. 3325 as a material weakness. However, he did not agree to report non-compliance with the Debt Collection Improvement Act of 1996 as a material weakness.

**Audit Response.** The DFAS comments were partially responsive. The Debt Collection Improvement Act requires that EFT be used to make all Federal payments after January 1, 1999. DFAS Columbus paid individuals and vendors by check when payments should have been made electronically. Most vendor payments met the requirements of a Federal payment and should have been paid electronically unless a waiver was granted. EFT information existed within the CEFT for most of the payments DFAS Columbus made by check. We request that DFAS reconsider its position and provide additional comments on the final report.

**3. We recommend that the Director, Department of Defense Education Activity, examine the communication between the schools and the contracting and paying offices and determine whether the use of Fast Payment procedures is appropriate.**

**Department of Defense Education Activity Comments.** The Director, DoD Education Activity, partially concurred with the recommendation. The Director stated that changes have been made to contracting operations which should reduce the need to use Fast Payment procedures as a means for ensuring timely reimbursement to vendors. He stated that changes in the rules for the use of Government purchase cards for overseas purchases have reduced the need for Fast Payments. However, the Director stated that Fast Payment procedures continued to be necessary to pay delivery orders for some supplies due to inherent delays in matching invoices to receiving reports and the time needed for an overseas freight shipment to reach its destination. He stated that such delays placed an undue burden on contractors who may have to wait up to 4 months for payment. The Director further stated that he would examine current and future invoicing and payment practices and the feasibility of incorporating e-commerce initiatives into operations as part of the process of consolidating contracting operations.

**Audit Response.** The DoD Education Activity comments were partially responsive. We acknowledge the viability of using the Government purchase card as a replacement to making payments using Fast Payment procedures. The use of other emerging e-commerce initiatives, such as Wide-Area Workflow, should also be pursued. In the meantime, RightFax technology currently in use at DFAS Columbus provides the necessary communications to ensure timely receipt and matching of hard-copy payment documents. Consequently, the extensive use of Fast Payment procedures is not justified in the current communications environment. We request that the Director reconsider his position and provide additional comments on the final report.

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## Appendix A. Scope and Methodology

### Scope

**Work Performed.** We evaluated the controls associated with CAPS(W) and the computation of vendor payments at DFAS Columbus. During FY 2000, 176,662 vendor payments, valued at \$1.7 billion, were made using CAPS(W). We reviewed a stratified random sample of 249 of the 41,140 payments made from May 1 through July 31, 2000. We also reviewed payments made in November and December 2001 to determine whether the problems identified continued to exist. We considered the organizational and system changes made by DFAS Columbus since July 31, 2000.

**Limitations to Scope.** We discussed with system program managers the plans to transition CAPS(W) to DPPS and reviewed documentation related to the status of the transition. Because the schedule for transitioning CAPS(W) to DPPS has slipped significantly, we limited our review of transition plans. See Appendix C for additional details regarding progress in transitioning to DPPS.

**General Accounting Office High-Risk Area.** The General Accounting Office has identified several high-risk areas in DoD. This report provides coverage of the Defense Financial Management high-risk area.

### Methodology

To assess the management controls over CAPS(W), we reviewed system access lists, compared the access levels of employees to their job position, observed system access by users, and discussed procedures for controlling and changing passwords with systems personnel. We also discussed the functionality of CAPS(W) with systems personnel at DFAS Indianapolis and DFAS Columbus. We also reviewed vendor payment operations at DFAS Columbus and held discussions with key DFAS financial managers.

From data files obtained from DFAS Columbus, we randomly selected a stratified sample of 249 vendor payments made using CAPS(W) from May 1 through July 31, 2000. (See Appendix E for additional details.) From January through December 2001, we reviewed operations at DFAS Columbus and the support for the payments at DFAS Columbus to determine whether payments were properly authorized, approved, and supported. Obligation documents, invoices, receiving reports, and payment vouchers were reviewed for accuracy and propriety. We compared payment vouchers to source documents to determine whether payments:

- were properly supported,
- were made in the correct amount,
- cited proper appropriation data,

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- were based on the correct invoice receipt dates and acceptance dates,
  - were properly certified, and
  - were sent to the correct vendor via the required means of delivery.

We also reviewed guidance for making vendor payments and compared guidance issued by DFAS Arlington and DFAS Columbus with guidance in 5 C.F.R. Part 1315; the FAR; DFARS subpart 232.9; and DoD Regulation 7000.14-R, volumes 5 and 10. We contacted selected receiving organizations to determine whether they received goods and services for which payments had been made. We also contacted several vendors to determine the status of invoices and whether they had received payments. We assessed improvements in vendor payment operations by assessing changes in guidance and the actions DFAS took in response to prior reviews of vendor payment operations.

**Use of Computer-Processed Data.** Although we relied on computer-processed data from CAPS(W), we did not evaluate the adequacy of all the system's general and application controls. We determined that password and system controls over CAPS(W) were not adequate and data entered at one location could be altered or removed by individuals at other locations. However, we established data reliability for the payments we reviewed by comparing data output to source documents and through discussions with vendors and receiving activities. Our tests disclosed that the data were sufficiently reliable to support the audit conclusions and recommendations.

**Use of Technical Assistance.** We obtained assistance in developing a statistical sampling plan and analyzing sample results from a statistician in the Quantitative Methods Division, Office of the Assistant Inspector General for Auditing.

**Audit Dates and Standards.** This financial-related audit was performed from January 2001 through January 2002 in accordance with generally accepted government auditing standards.

**Contacts During the Audit.** We visited or contacted individuals and organizations within DoD. Further details are available on request.

## Management Control Program Review

DoD Directive 5010.38 "Management Control (MC) Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996, require DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the management controls.

**Scope of Review of the Management Control Program.** We reviewed the adequacy of management controls over vendor payments made using CAPS(W).



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Specifically, we reviewed management controls over vendor payments at DFAS Columbus. We also reviewed management's self-evaluation of those controls.

**Adequacy of Management Controls.** We identified a material management control weakness, as defined by DoD Instruction 5010.40, in the controls associated with making vendor payments using CAPS(W). We discussed the material management control weakness in IG DoD Audit Report No. D-2002-0056. Management controls at DFAS Columbus also were not adequate to ensure that all payments made using CAPS(W) were properly certified as required by 31 U.S.C. 3325, sent via EFT as required by the Debt Collection Improvement Act of 1996, properly supported, and made for correct amounts. Recommendation 2, if implemented, will improve controls over vendor payments. A copy of the report will be provided to the senior official in charge of management controls in DFAS.

**Adequacy of Management's Self-Evaluation.** DFAS Columbus managers identified vendor payments as an assessable unit and, in our opinion, incorrectly identified the risk associated with vendor payments as moderate. The problems we identified require the assessment of risk to be high. The Director, Commercial Pay Services, did not identify the lack of adequate certification and Fast Payment procedures and the failures in making properly supported vendor payments using EFT as management control weaknesses in the DFAS Columbus FY 2001 Annual Statement of Assurance for Vendor Pay Services. Failure to comply with the certification requirements in 31 U.S.C. 3325 and payment instructions in the Debt Collection Improvement Act of 1996 are significant management control weaknesses that should be reported in the DFAS Annual Statement of Assurance as part of an overall material management control weakness related to making vendor payments using CAPS(W).

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## **Appendix B. Prior Coverage**

During the last 5 years, GAO and the Inspector General of the Department of Defense have issued several audit reports discussing issues related to vendor payments. Unrestricted GAO reports can be accessed on the Internet at <http://www.gao.gov>. Unrestricted IG DoD reports can be accessed on the Internet at <http://www.dodig.osd.mil/audit/reports>.

### **General Accounting Office**

GAO Report No. GAO-01-309 (OSD Case No. 3029), "Excess Payments and Underpayments Continue to be a Problem at DoD," February 22, 2001

GAO Report No. GAO/AIMD-00-10 (OSD Case No. 1919), "Increased Attention Needed to Prevent Billions in Improper Payments," October 29, 1999

GAO Report No. GAO/AIMD-98-274 (OSD Case No. 1687), "Improvements Needed in Air Force Vendor Payment Systems and Controls," September 28, 1998

GAO Report No. GAO/OSI-98-15 (OSD Case No. 1687-A), "Fraud by an Air Force Contracting Official," September 23, 1998

### **Inspector General of the Department of Defense**

IG DoD Report No. D-2002-0056, "Controls Over Vendor Payments Made for the Army and Defense Agencies Using the Computerized Accounts Payable System," March 6, 2002

IG DoD Report No. D-2002-008, "Controls Over the Computerized Accounts Payable System at Defense Finance and Accounting Service Kansas City," October 19, 2001

IG DoD Report No. D-2001-101, "Controls Over Electronic Document Management," April 16, 2001

IG DoD Report No. D-2001-075, "Standard Procurement System Use and User Satisfaction," March 31, 2001

IG DoD Report No. D-2001-029, "Controls Over the Electronic Document Access System," December 27, 2000

IG DoD Report No. D-2000-139, "Controls Over the Integrated Accounts Payable System," June 5, 2000

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## Appendix C. Progress in Transitioning to DPPS

An announced audit objective was to evaluate the progress in transitioning CAPS(W) to the DPPS. DPPS is to be the standard system used for calculating contract vendor payments and selected other entitlements. Transitioning CAPS(W) to DPPS is essential in resolving long-standing commercial payment issues. DFAS originally planned to fully implement DPPS by the end of FY 2001. In June 2000, DFAS planned to begin using DPPS in August 2001 to make vendor payments that were being made using CAPS(W). During the audit, the milestone schedule for transitioning to DPPS slipped several times. As of December 21, 2001, the plan was to begin transitioning from CAPS(W) to DPPS in October 2003. We did not evaluate the reasons given for the delays in fielding DPPS.

**Implementation Delays.** Implementation of DPPS is dependent on the success of the DoD End-to-End Finance and Procurement Joint Concept of Operations, which outlines the future DoD procurement, contract, and vendor payment process. The end-to-end concept depends on several systems and databases, including the Standard Procurement System, Defense Corporate Database, Defense Corporate Warehouse, and DPPS, seamlessly sharing data with each other. The Strategic Business Office at DFAS Columbus is responsible for ensuring the smooth transition to DPPS. System program managers informed us that software issues that typically occur during any large-scale system initiative have delayed the fielding of DPPS. Specifically, system program managers stated that DPPS was delayed for the following reasons.

- The user community needed several enhancements to be made to the DPPS business application in order to have confidence in the software's capability. These enhancements have taken time to design and develop. By the middle of 2002, all enhancement work for DPPS Release 0301 will be satisfied.
- It took more time than expected to test DPPS in an integrated (enterprise) environment to ensure the validity of the technical architecture.
- The Defense Corporate Database was not mature enough to allow deployment or integrated testing of the DPPS application.

Program officials have revised the transition plan and now do not anticipate the complete transition from CAPS(W) to DPPS until March 2004. Table C provides the anticipated transition schedule from CAPS and the other legacy commercial payment systems to DPPS as of December 21, 2001.

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<b>Table C. DPPS Transition Schedule</b>		
Objective	Objective Start Date	Objective Completion Date
Operational Assessment Vendor Payment Release (0301)	July 2002	September 2002
Operational Test and Evaluation for Contract Payments	July 2003	August 2003
CAPS Activation (Initial Operating Capability)	October 2003	March 2004
Mechanization of Contract Administration Services	October 2003	March 2004
Integrated Accounts Payable System	March 2004	July 2004
Standard Accounting and Reporting System	August 2004	December 2004
Standard Automated Voucher Examining System	December 2004	February 2005
Defense Integrated Subsistence Management System	February 2005	May 2005
Automated Voucher Examining and Disbursing System (Full Operating Capability)	July 2005	September 2005

Because legacy systems have not been upgraded due to the anticipated transition to DPPS, controls over vendor payments remain weak and DoD continues to be susceptible to erroneous payments. DFAS needs to consider whether changes should be made to existing systems to make them current with management control requirements.

**Future Audit Coverage.** The IG DoD has ongoing audits covering aspects of the DoD End-to-End Finance and Procurement Joint Concept of Operations and the transition of the Mechanization of Contract Payment Services system to DPPS. An audit of the security controls of the DPPS began on November 7, 2001. Progress in transitioning to DPPS will continue to receive audit emphasis.

## Appendix D. Acting Assistant Inspector General for Auditing Memorandum



INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
400 ARMY NAVY DRIVE  
ARLINGTON, VIRGINIA 22202-2884

MAR 20 2001

### MEMORANDUM FOR DIRECTOR, DEFENSE FINANCE AND ACCOUNTING SERVICE

SUBJECT: Recommendation for Action on Certification of Vendor Payments Made  
Using the Computerized Accounts Payable System at Defense Finance and  
Accounting Service Columbus

This memorandum is to provide you with advance notification of the results of our work on the Audit of Controls Over the Computerized Accounts Payable System (CAPS) (Project No. D2000FI-0248). While visiting Defense Finance and Accounting Service (DFAS) Columbus, we determined that vendor payments below \$25,000 were not being certified before payment as required by section 3325, title 31, United States Code. I am especially concerned that this issue was previously identified during a DFAS internal review in February 1999, but actions were not taken to correct the problem. That review also identified that other entitlement systems used by DFAS Columbus were not certifying payments below \$25,000. Since certification of payments is required by law, and uncertified payments make DoD vulnerable to fraud and erroneous payments, I feel immediate action is required.

**Background.** Section 3325, title 31, United States Code, requires the appointment of certifying officials. Sound fiscal management and internal control practices dictate that certifying officers be independent and organizationally separate from the disbursing officers. Certifying officers are pecuniary liable for erroneous payments. By affixing a manual, electronic or digital signature to a voucher, the certifying officer states that the items listed are correct and proper for payment from the appropriation or other fund designated and the proposed payment is legal, proper, and correct. The certifying officer must ensure that information on the voucher is consistent with the supporting documentation and entered correctly into the entitlement system for payment.

**Audit Results.** DoD 7000.14-R, volume 5, chapter 33, "Accountable Officials and Certifying Officers," states that electronic certification must include adequate safeguards. An electronic certification adopted by a certifying officer must be:

- unique to the certifying officer;
- under the sole control or custody of the certifying officer;
- linked to the data certified in such a manner that if the data are changed, the digital or electronic signature is invalidated; and
- capable of being verified by the disbursing officer.

CAPS did not meet the requirements for electronic certification. However, DFAS Columbus automatically certified in CAPS all payments below \$25,000. Further,

DFAS Columbus had automatically certified in CAPS all payments below \$25,000 since about May 1994. As a result, certifying officers were not validating the information entered into CAPS by technicians to ensure that it was legal, proper, and correct. As part of a DFAS Headquarters effort to ensure that internal controls throughout the network were strong, a vendor pay review was performed at DFAS Columbus in February 1999. The review team concluded that payments were not certified in accordance with DoD 7000.14-R, volume 5, chapter 33. The report stated that since CAPS did not meet the requirements for electronic certification, a manual signature must be affixed to the payment vouchers. We found that actions had not been taken to correct the problem. The report also stated that the same problem was identified with the Defense Integrated Subsistence Management System and the Standard Automated Material Management System. The review team also found that supervisory certifications of most payment vouchers in the Mechanization of Contract Administration Services system were not performed.

We were told in January 2001 that the automatic certification of CAPS payments below \$25,000 would be discontinued. We have not returned to the Columbus center and verified that this practice has been stopped. Further, since the scope of our audit was limited to CAPS, we did not determine the status of corrections involving the other systems. We suggest that DFAS take immediate action to ensure that all payments using CAPS and the other entitlement systems at DFAS Columbus are manually certified before payment.

We will provide you with our detailed audit results in a series of reports that we plan to issue addressing controls over CAPS. Questions on the audit should be directed to Mr. Richard B. Bird at (703) 604-9159 (DSN 664-9159) (rbird@dodig.osd.mil) or Mr. Carmelo Ventimiglia at (317) 510-3852 (DSN 699-3852) (cventimiglia@dodig.osd.mil).

*David E. Steensma*

David E. Steensma  
Acting Assistant Inspector General  
for Auditing

cc: Under Secretary of Defense (Comptroller)  
Director, Defense Logistics Agency



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## Appendix E. Statistical Sampling Methodology

### Sampling Plan

**Sampling Purpose.** The purpose of the statistical sampling plan was to estimate the number of vendor payments that did not have proper documentation by type of payment and type of document. The statistical sampling plan was also used to estimate the number of erroneous payments, once it was determined that a payment was not properly supported. The payments were reviewed to determine whether documentation was adequate and complied with the Prompt Payment Act. The sample was further used to estimate the number of payments being made using Fast Payment procedures. The attribute sampling procedures do not allow the projection of dollar values of discrepancies found.

**Universe Represented.** DFAS Columbus provided a database of vendor payments made using CAPS(W) from May 1 through July 31, 2000. The file contained records on 41,140 vendor payments. The total dollar value of the vendor payments in the population was \$424.4 million.

**Sampling Design.** We used a stratified sampling design developed by a statistician within the Office of the Assistant Inspector General for Auditing to determine whether or not the vendor payments had proper documentation. The population was divided into 3 strata: payments valued at less than \$2,500; payments valued at least \$2,500 but less than \$1 million; and payments valued at \$1 million or more. A total of 249 payments (145 contractual and 104 miscellaneous) were randomly selected: 150 from the first stratum, 70 from the second stratum, and 29 from the third stratum.

### Sampling Results

Table E-1 identifies the statistical estimates of the number of contract and miscellaneous payments contained in the population.

<b>Table E-1. Type of Payment (99-Percent Confidence Level)</b>			
Type of Payment	Lower Bound	Point Estimate	Upper Bound
Contractual	19,671	23,206	26,741
Miscellaneous	14,399	17,934	21,469



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We are 99 percent confident that from 19,671 to 26,741 of the payments were contractual payments. Also, we are 99 percent confident that from 14,399 to 21,469 were miscellaneous payments.

Table E-2 identifies the statistical estimates of vendor payments that were not properly supported by type of payment.

<b>Table E-2. Payments Not Properly Supported (99-Percent Confidence Level)</b>			
Type of Payment	Lower Bound	Point Estimate	Upper Bound
Contractual	19,123	22,675	26,226
Miscellaneous	11,786	15,244	18,702

We are 99 percent confident that from 19,123 to 26,226 contractual payments were not properly supported. Also, we are 99 percent confident that from 11,786 to 18,702 miscellaneous payments were not properly supported.

Table E-3 identifies the statistical estimates of contractual payments that were not properly supported by document type.

<b>Table E-3. Payments Not Properly Supported by Document Type (99-Percent Confidence Level)</b>			
Type of Document	Lower Bound	Point Estimate	Upper Bound
Invoices	9,523	12,839	16,156
Receiving Reports	35,986	37,918	39,851
Contracts	1,284	3,217	5,149

We are 99 percent confident that from 9,523 to 16,156 vendor payments were not properly supported due to improper invoices. We are 99 percent confident that from 35,986 to 39,851 vendor payments were not properly supported due to improper receiving reports. We are 99 percent confident that from 1,284 to 5,149 vendor payments were not properly supported due to improper obligation documents. Point estimates exceed the total population of 41,140 because one or more of the supporting documents may have caused a single payment to be not properly supported, so separate attributes were projected.

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Table E-4 identifies the statistical estimates of contractual and miscellaneous payments that were erroneous payments.

<b>Table E-4. Erroneous Payments (99-Percent Confidence Level)</b>		
Lower Bound	Point Estimate	Upper Bound
2,204	4,369	6,635

We are 99 percent confident that from 2,204 to 6,635 of the vendor payments were erroneous payments. A payment was considered erroneous if the vendor was paid the incorrect amount based on the documents supporting the payment.

Table E-5 identifies the statistical estimates of the number of contractual payments made using Fast Payment procedures and Fast Payments made for which proof of receipt of goods was not verified.

<b>Table E-5. Fast Payments (99-Percent Confidence Level)</b>			
Type of Payment	Lower Bound	Point Estimate	Upper Bound
Fast Payments	4,163	6,793	9,423
Fast Payments Made Without Proper Receipt	51	1,314	2,578

We are 99 percent confident that from 4,163 to 9,423 contractual payments were made using Fast Payment procedures. Also, we are 99 percent confident that from 51 to 2,578 of the Fast Payments were made without follow-up actions taken to ensure proper receipt of goods.

Each of the individual estimates is projected at the 99-percent confidence level. However, taking a conservative approach, reviewing each of the 8 estimates as an independent projection, we estimate the overall confidence level for all 8 estimates simultaneously are approximately 90 percent.

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## Appendix F. Erroneous and Unsupported Payments

From our sample of 249 payments made from May 1 through July 31, 2000, we identified 29 erroneous payments. We considered a payment to be erroneous if the vendor was paid the incorrect amount. We identified \$10,629.41 in overpayments and \$3,804.68 in underpayments. Nine additional payments, valued at \$151,773.03, were made without proper supporting documents or the supporting documents contained information that was inconsistent with the payment. We questioned the appropriateness of DFAS Columbus making these nine payments based on available information.

### Incorrect Amounts Paid to Vendors

DFAS Columbus made 29 vendor payments in the incorrect amount resulting in overpayments of \$10,629.41 and underpayments of \$3,804.68. Table F-1 shows, by category, the number of erroneous payments and dollar value of overpayments and underpayments.

<b>Table F-1. Incorrect Amounts Paid to Vendors</b>			
Category	Number of Erroneous Payments	Amount Overpaid	Amount Underpaid
Incorrect Information Entered in CAPS(W)	14	\$ 2,131.99	\$3,274.91
Miscalculation of Payment Due Date	3	0	529.77
Vendor Paid More Than Amount Due	2	3,129.29	0
Payment for More Than Authorized	3	235.22	0
Fast Payments Without Evidence of Receipt	7	5,132.91	0
<b>Total</b>	<b>29</b>	<b>\$10,629.41</b>	<b>\$3,804.68</b>

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**Incorrect Information Entered Into CAPS(W).** Technicians incorrectly entered information from supporting documents into CAPS(W). The incorrect input of dates used to calculate payment due dates and the amounts due vendors caused five overpayments totaling \$2,131.99 and nine underpayments totaling \$3,274.91. The following list provides pertinent information on the 14 erroneous payments.

<u>Voucher Number</u>	<u>Voucher Date</u>	<u>Overpayment (Underpayment)</u>	<u>Remedial Action Taken</u>
254815	7/03/2000	\$ 2,003.53	Yes
223935	5/03/2000	80.89	No
242592	6/07/2000	21.86	No
242348	6/06/2000	16.00	Yes
242069	6/06/2000	9.71	No
223939	5/03/2000	(1.39)	No
248515	6/20/2000	(3.20)	No
250752	6/23/2000	(3.37)	No
240244	6/01/2000	(13.00)	Yes
244498	6/12/2000	(22.48)	No
246126	6/14/2000	(27.92)	No
244614	6/12/2000	(220.01)	No
233699	5/19/2000	(276.87)	No
240787	6/02/2000	(2,706.67)	No

In all cases, supporting documentation identified that the technician had made an error in computing the payment. Certifying officials should have detected these errors and returned the payments for correction.

**Miscalculation of Payment Due Date.** Technicians miscalculated the payment due dates on three payments. As a result, DFAS underpaid three invoices by \$529.77. In each of the three cases, the payments were not paid on the expected payment date and interest payments were not recalculated. As a result, the vendors were paid the incorrect amount of interest. The following list identifies information on each of the three payments, including the amount of the underpayment and whether subsequent action was taken to pay the vendor the underpaid amount.

<u>Voucher Number</u>	<u>Voucher Date</u>	<u>(Underpayment)</u>	<u>Remedial Action Taken</u>
244664	6/12/2000	\$ (5.12)	No
263383	7/20/2000	(114.44)	No
223114	5/02/2000	(410.21)	No

**Vendor Paid More Than Amount Due.** Two vendors were paid more than they were due. Technicians entering and paying current billing charges from credit card statements caused two overpayments in our sample. The charges during the current billing period on the statements exceeded the amounts actually due the vendors. Credit card statements were not being reconciled by approving officials or vendor pay technicians before payment. The following list identifies the two overpayments.

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<u>Voucher Number</u>	<u>Voucher Date</u>	<u>Overpayment</u>	<u>Remedial Action Taken</u>
266065	7/26/2000	\$3,106.51	No
243640	6/08/2000	22.78	No

**Payments for More Than Authorized.** Vendors were paid more for goods and services than authorized in obligation documents supporting the payments. The following three payments were paid in the incorrect amounts because either the invoice or receiving report was not consistent with the contract.

<u>Voucher Number</u>	<u>Voucher Date</u>	<u>Overpayment</u>	<u>Remedial Action Taken</u>
261372	7/19/2000	\$124.89	No
262833	7/19/2000	109.33	No
239045	5/31/2000	1.00	No

**Fast Payments Without Evidence of Receipt.** Receipt information was not matched to each Fast Payment made by DFAS Columbus. Seven Fast Payments were identified in our sample for which no evidence of receipt of items was found in the Base Operating Supply System over one year after items were shipped. The following list provides pertinent information on the seven payments.

<u>Voucher Number</u>	<u>Voucher Date</u>	<u>Overpayment</u>	<u>Remedial Action Taken</u>
244561	6/12/2000	\$2,359.00	No
248661	6/20/2000	1,679.80	No
262327	7/18/2000	517.95	No
245304	6/13/2000	235.50	No
245162	6/13/2000	226.68	No
237498	5/26/2000	94.52	No
250712	6/23/2000	19.46	No

## Missing or Inconsistent Supporting Documents

We questioned the appropriateness of DFAS Columbus making nine payments, valued at \$151,773.03, based on information available in the vendor payment office. The payments were made without proper supporting documents or the supporting documents contained information that was inconsistent with the payment. We subsequently determined that the vendors were entitled to the payments. Table F-2 shows the number of payments by category and the dollar value of the payments that should not have been made until proper documentation was obtained.

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<b>Table F-2. Missing or Inconsistent Supporting Documents</b>		
Category	Number of Payments	Total Dollar Value of Payments
No Receiving Report	5	\$ 1,966.46
No Invoice	3	117,030.57
Sent to Incorrect Address	1	32,776.00
<b>Total</b>	<b>9</b>	<b>\$151,773.03</b>

**No Receiving Report.** The following five payments were made without a receiving report.

<u>Voucher Number</u>	<u>Payment Date</u>	<u>Amount</u>
265465	7/25/2000	\$754.13
227227	5/08/2000	504.00
249385	6/21/2000	372.75
223648	5/03/2000	299.00
244237	6/09/2000	36.58

**No Invoice.** The following three payments were made without an invoice.

<u>Voucher Number</u>	<u>Payment Date</u>	<u>Amount</u>
260564	7/13/2000	\$88,470.09
247415	6/16/2000	24,965.86
250752	6/23/2000	3,594.62

**Payment Sent to Incorrect Address.** The following check payment was sent to the incorrect address.

<u>Voucher Number</u>	<u>Payment Date</u>	<u>Amount</u>
239655	5/31/2000	\$32,776.00

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## **Appendix G. Report Distribution**

### **Office of the Secretary of Defense**

Under Secretary of Defense for Acquisition, Technology and Logistics  
Under Secretary of Defense (Comptroller)/Chief Financial Officer  
Deputy Chief Financial Officer  
Deputy Comptroller (Program/Budget)  
Director for Acquisition Initiatives

### **Department of the Army**

Auditor General, Department of the Army

### **Department of the Navy**

Auditor General, Department of the Navy

### **Department of the Air Force**

Auditor General, Department of the Air Force

### **Other Defense Organizations**

Director, Defense Finance and Accounting Service  
Director, Commercial Pay Services  
Director, Defense Logistics Agency  
Director, Defense Commissary Agency  
Director, Department of Defense Education Activity

### **Non-Defense Federal Organization**

Office of Management and Budget

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## **Congressional Committees and Subcommittees, Chairman and Ranking Minority Member**

Senate Committee on Appropriations  
Senate Subcommittee on Defense, Committee on Appropriations  
Senate Committee on Armed Services  
Senate Committee on Governmental Affairs  
House Committee on Appropriations  
House Subcommittee on Defense, Committee on Appropriations  
House Committee on Armed Services  
House Committee on Government Reform  
House Subcommittee on Government Efficiency, Financial Management, and Intergovernmental Relations, Committee on Government Reform  
House Subcommittee on National Security, Veterans Affairs, and International Relations, Committee on Government Reform  
House Subcommittee on Technology and Procurement Policy, Committee on Government Reform





# Under Secretary of Defense (Comptroller) Comments



COMPTROLLER

OFFICE OF THE UNDER SECRETARY OF DEFENSE  
1100 DEFENSE PENTAGON  
WASHINGTON, DC 20301-1100

MAY 2 2002

MEMORANDUM FOR DIRECTOR, FINANCE AND ACCOUNTING DIRECTORATE,  
OFFICE OF THE INSPECTOR GENERAL, DEPARTMENT OF  
DEFENSE

SUBJECT: Office of the Inspector General, Department of Defense (OIG, DoD) Draft Audit  
Report, "Controls Over the Computerized Accounts Payable System at Defense  
Finance and Accounting Service Columbus" (Project No. D2000FI-0248.002)

This is the Office of the Under Secretary of Defense (Comptroller) response to the subject  
draft report. Comments are provided below.

**OIG, DoD Recommendation:** "We recommend that the Under Secretary of Defense  
(Comptroller) update DoD Regulation 7000.14-R, Volume 10, to require the use of Electronic  
Funds Transfer for all payments made using vendor payment systems unless the requirement is  
properly waived in accordance with 31 Code of Federal Regulations Part 208, section 208.4."

**OUSDC Response:** Concur. Volume 10, Chapter 1, of the Department of Defense Financial  
Management Regulation (7000.14-R) was updated in March 2002. The updated chapter requires  
the use of electronic funds transfer for all payments using vendor payment systems unless the  
requirement is properly waived in accordance with Title 31, Code of Federal Regulations,  
section 208.4.

My point of contact for this matter is Ms. Melanie Willis. She may be reached by  
e-mail: willism@osd.pentagon.mil or by telephone at (703) 602-0456.

A handwritten signature in black ink, appearing to read "De W. Ritchie, Jr.".

De W. Ritchie, Jr.  
Acting Deputy Chief Financial Officer

# Defense Finance and Accounting Service Comments



## DEFENSE FINANCE AND ACCOUNTING SERVICE COLUMBUS CENTER

P.O. BOX 182317  
COLUMBUS, OHIO 43218-2317

IN REPLY  
REFER TO DFAS-BS/CC

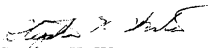
MAY 15 2002

MEMORANDUM FOR DIRECTOR, FINANCE AND ACCOUNTING DIRECTORATE,  
OFFICE OF THE INSPECTOR GENERAL

SUBJECT: DoD IG Draft Audit Report, "Controls Over the Computerized Accounts Payable  
System at Defense Finance and Accounting Service Columbus," Project Number  
D2000FI-0248.002, dated February 26, 2002

Management comments for Recommendations 2.a through 2.h and Appendix A of the  
subject draft report, which fall under the purview of the Commercial Pay Services, are attached.

If you have any questions or comments, please contact Mr. William Sabo,  
DFAS-BSPC/CC, at DSN 869-6352 or 614 693-6352.

  
Stephen K. Worton  
Deputy Director  
Commercial Pay Services

Attachment  
As stated

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**DFAS Management Comments to the DoD IG Draft Report, Controls Over the  
Computerized Accounts Payable System at the Defense Finance and Accounting Service  
Columbus, Project Number D2000FI-0248.002, dated February 26, 2002**

**Recommendation 2:** We recommend that the Director, Commercial Pay Services, take the following actions at Defense Finance and Accounting Service Columbus.

**Recommendation 2.a:** Implement procedures to ensure that all documents supporting vendor payments are received in the mailroom, screened for compliance with 5 Code of Federal Regulations Part 1315, and immediately scanned into the Electronic Data Management system for indexing and payment processing.

**Management Response:** Partially Concur. All documents used during the processing of vendor payments such as invoices, receiving reports and obligating documents, are received in the mailroom. A cursory review is performed in the scanning area to identify contract numbers and to determine whether DFAS Columbus Vendor Pay is the appropriate payment office. The Paying Technician or Tier II indexer is responsible for examining the document for compliance with 5 Code of Federal Regulations Part 1315 as part of their processing procedures. However, processing large documents such as CBA and Powertrack payments is not practical in EDM. These large documents are routed to the Vendor Pay area, processed, then scanned into EDM after payment.

During this audit, there were instances of documents being faxed directly to the technicians and subsequently processed in CAPS(W) for payment. The CPBL has since implemented the use of EDM Fax and in limited cases, RightFax. The stand alone fax machines will be removed.

**Estimated Completion Date:** June 15, 2002

**Recommendation 2.b:** Require the manual certification of all vendor payments made using the Computerized Accounts Payable System for Windows.

**Management Response:** Partially Concur. DFAS Columbus Vendor Pay is collaborating with DFAS Arlington to implement a sampling plan that meets the requirements of the COL. DFAS expects to have a sampling plan developed prior to June 30, 2002 and forwarded to OSD for approval.

**Estimated Completion Date:** June 30, 2002

**Recommendation 2.c:** Develop procedures to require that all payments be made using Electronic Funds Transfer unless the Electronic Funds Transfer requirement has been properly waived. The procedures should:

(1) Require vendors and contractors paid using miscellaneous payments procedures to properly register in the Central Contractor Registry.

(2) Require that miscellaneous payments to individuals receiving federal salaries be made using Electronic Funds Transfer.

**Management Response 2.c.1:** Partially Concur. It is the Contracting Officer's responsibility to ensure that contractors are required to register in CCR by inserting FAR 52.232-33, Payment by Electronic Funds Transfer- Central Contractor Registry clause in the contract. DFAS Columbus Vendor Pay does have procedures in place to require all vendors to register in CCR. However, there are some instances where the requirement can not be enforced; and the vendor does not have to register in CCR. CCR/CEFT guidance states that utility companies are exempt from complying with the mandatory EFT requirement. Approximately 70% of miscellaneous payments are disbursed via EFT including, Powertrack, IMPAC and all Centrally Billed Accounts (CBA). The remaining 30% of non-EFT payments are issued to utilities, government entities, and to federal employees for training and sundry items. To encourage participation, DFAS Columbus Vendor Pay provides a copy of the CCR registration form to vendors and will assist in the registration process.

The DFAS Corporate Electronic Fund Transfer database will have the capacity to store miscellaneous payment remittance information for vendors not required to register in CCR beginning with the DCII/DPPS/CEFT/ 0301 release scheduled for August 2002. This new CEFT functionality will be available for DFAS legacy and DPPS systems.

**Estimated Completion Date:** September 30, 2002

**Management Response 2.c.2:** Partially Concur. Currently, there is no mandate for Government employees to receive reimbursements via EFT for tuition or for sundry reimbursable items. The CEFT database stores remittance information for all DoD military and civilian employees. CEFT receives scheduled updates from all DoD pay systems to include Defense Civilian Pay System (DCPS), Defense Joint Military Pay System-Active Component & Reserve Component (DJMS), and Marine Corps Total Force System Active Component & Reserve Component (MCTFS).

The DFAS Corporate Electronic Fund Transfer database will have the capacity to store miscellaneous payment remittance information for vendors not required to register in CCR beginning with the DCII/DPPS/CEFT/ 0301 release scheduled for August 2002. This new CEFT functionality will be available for DFAS legacy and DPPS systems.

**Estimated Completion Date:** September 30, 2002

**Additional Comments:** The audit states that DFAS Columbus Vendor Pay failed to confirm with CCR for bank routing information and subsequently, two checks were issued in lieu of EFT. The first check was to a utility, which does not necessarily require remittance by EFT. The other

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was to the Army Air Force Exchange Service (AAFES), which is a Government entity. We do not concur with the comments pertaining to these two payments as both were exempt from the EFT requirement.

**Recommendation 2.d:** Require payment technicians and certification officials to validate the remittance information in the Computerized Accounts Payable System for Windows against information in the Corporate Electronic Funds Transfer database when processing payments.

**Management Response:** Partially Concur. The current procedure is to compare CAPS(W) EFT information to the data in CCR/CEFT at the time the invoices are processed. CAPS(W) Version 6.0, scheduled for implementation in November 2002, will include a systemic interface with CCR/CEFT. The interface will automatically overlay the contractor's billing address and bank routing information in CAPS(W) when changes are made to CCR/EFT, thus eliminating potential keystroke errors. We will await this new release of this new version of CAPS(W).

**Estimated Completion Date:** November 29, 2002

**Recommendation 2.e:** Train Vendor Pay personnel on the standards for properly supporting vendor payments and entering information into the Computerized Accounts Payable System for Windows.

**Management Response:** Concur. DFAS Columbus Vendor Pay has internally developed a CAPS(W) training class. The class overviews the general payment process and provides a detailed review of how to select appropriate invoice receipt dates and acceptance dates. The training class will emphasize inputting correct dates from contractual obligations, receiving reports, and invoices to produce a correct payment date. Vendor Pay employees will be receiving the training during May 2002. Further, the CPBL is developing a tracking mechanism for all Vendor Pay sites to ensure employees are trained.

**Estimated Completion Date:** July 31, 2002

**Recommendation 2.f:** Resolve erroneous payments and other questionable payments identified in the audit report that can be cost-effectively corrected.

**Management Response:** Concur. A review of the 29 payments from Appendix F is in process. DFAS Columbus Vendor Pay will initiate corrective actions on those payments proved valid and that can be cost-effectively resolved.

**Estimated Completion Date:** June 30, 2002

**Recommendation 2.g:** Improve procedures for making Fast Payments by:

- 
- (1) Returning improperly marked invoices to vendors for correction.
  - (2) Matching Fast Payments to corresponding receiving documents and resolving any discrepancies.
  - (3) Establishing a management control and audit program for post-payment examination of payments.

**Management Response 2.g.1:** Concur. Effective immediately, DFAS Columbus Vendor Pay will return invoices not adhering to the requirements for a proper invoice as stated in the FAR.

**Management Response 2.g.2:** Partially Concur. Per the FMR, Volume 10, Chapter 1, 010201, disbursing offices shall ensure the performance of post payment audits. The audits shall confirm acceptance and receipt and include matching with payment documents. DFAS performs post payment audit reviews by sampling all applicable entitled documents. We will notify the receiving activity of results indicating if receipt and acceptance has not been provided. This will ensure a closed loop process is in place.

**Management Response 2.g.3:** Concur. DFAS has established a Post Pay Audit Team that reviews vendor payments on an annual basis at the various Vendor Pay locations. The Post Pay Audit Team visited DFAS Columbus during October 28 through November 15, 2001, and established a 98.6% accuracy rate. A schedule for Fiscal Year 2002 Post Payment Audit Review is included (see attachment).

**Estimated Completion Date:** Action complete, with the exception of Management Response 2.g.2. A post payment review for receipt and acceptances will be performed by July 2002.

**Recommendation 2.h:** Report non-compliance with the certification requirements in 31 United States Code 3325 and the payment requirements in the Debt Collections Improvement Act of 1996 as material control weaknesses in the Annual Statement of Assurance until corrected.

**Management Response:** Partially Concur. DFAS Columbus agrees that CAPS(W) Vendor Pay is not in full compliance with 31 United States Code 3325 with respect to the 100% certification of payments. DFAS Columbus Vendor Pay will report non-compliance with 31 USC 3325 as a material weakness until standards are provided and implemented. In the interim, DFAS Columbus is collaborating with DFAS Arlington to develop a sampling plan to meet requirements.

DFAS Columbus does not agree to include non-compliance with the Debt Collections Improvement Act of 1996 with respect to 100% EFT payments as a material weakness in the Annual Statement of Assurance. As stated previously in management response 2.c.2, DFAS Columbus Vendor Pay attempts to remit payments by EFT whenever possible; however, some vendors are not required to receive remittance by EFT.

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The DFAS Corporate Electronic Fund Transfer database will have the capacity to store miscellaneous payment remittance information for vendors not required to register in CCR beginning with the DCII/DPPS/CEFT/ 0301 release scheduled for August 2002. This new CEFT functionality will be available for DFAS legacy and DPPS systems.

**Estimated Completion Date:** November 29, 2002

**Recommendation Appendix A:** We identified a material management control weakness, as defined by DoD Instruction 5010.40, in the controls associated with making vendor payments using CAPS(W). Management controls at DFAS Columbus were also not adequate to ensure that all payments made using CAPS(W) were properly certified as required by 31 U.S.C. 3325, sent via EFT as required by the Debt Collection Improvement Act of 1996, properly supported, and made for correct amounts.

**Management Response:** DFAS Columbus Vendor Pay has addressed the management control weaknesses identified during this audit. DFAS Columbus will submit a sampling plan for the certification of payments to OSD for approval by June 15, 2002. A new version of CAPS(W) (Release 6.0), scheduled for implementation in November 2002, will include a systemic interface with CCR/CEFT. The interface will automatically overlay the contractor's billing address and bank routing information in CAPS(W) when changes are made to CCR/EFT. Effective immediately, DFAS Columbus Vendor Pay will return Fast Pay invoices not adhering to the requirements for a proper invoice as stated in the FAR 13.4. The above actions will improve controls over vendor payments and reduce the quantity of improperly supported payments.

**Estimated Completion Date:** November 29, 2002



Schedule Sorted By Work Counts

FY 2002 SCHEDULE OF POST PAYMENT AUDIT REVIEWS									
Dates	Old	System	Team	Army	Navy	Marine	Air Force	DEF Agency	Total
Oct 9-19, 2001	OPLOC Lawton	CAPS	All	328,429					328,429
Oct 29 - Nov 16	DFAS Columbus	Various	All+					5,076,182	5,076,182
Dec 10-21, 2001	OPLOC Lexington	CAPS	All	101,212					101,212
Jan 7-25, 2002	OPLOC Pacific	STARS	All		276,688				276,688
Jan 28 - Feb 2, 2002	OPLOC Orlando	CAPS/IAPS	Split+	224,593			118,032		342,625
Jan 28 - Feb 2, 2002	OPLOC Charleston	STARS	Split+		395,468				395,468
Feb 11-22, 2002 *	OPLOC DNO	CAPS	All	1,795,067					1,795,067
Feb 25 - Mar 1, 2002 *	OPLOC Norfolk	CAPS/IAPS	All		1,790,589				1,790,589
Mar 11 - Mar 15, 2002 *	OPLOC Rome	CAPS	All	484,105					484,105
Mar 25-30, 2002 *	OPLOC Pensacola	STARS/FABS	All		637,105				637,105
Apr 8-12, 2002 *	OPLOC San Antonio	CAPS/IAPS	All	225,300			186,475		411,775
Apr 15-26, 2002 *	OPLOC Europe	CAPS CLPR	All	409,414			276,712		686,126
Apr 29 - May 3, 2002 *	OPLOC Seaside	CAPS	Split+	57,854					57,854
Apr 29 - May 3, 2002 *	OPLOC Oakland	IAPS	Split+		216,967				216,967
May 6-10, 2002 *	OPLOC San Bernardino	IAPS	Split+				149,146		149,146
May 6-10, 2002 *	OPLOC San Diego	STARS	Split+		765,192				765,192
May 20-24, 2002 *	DFAS Kansas City	STARS	All			544,100			544,100
Jun 10-14, 2002 *	OPLOC Rock Island	CAPS	All	288,028					288,028
Jun 24-28, 2002 *	OPLOC Omaha	IAPS	All				368,491		368,491
Jul 8-12, 2002 *	OPLOC St. Louis	CAPS CLPR	All	172,371					172,371
Jul 29 - Aug 2, 2002 *	OPLOC Dayton	IAPS	All				279,034		279,034
Aug 5-16, 2002 *	OPLOC Japan	STARS	All		???				-
Sep 3-13, 2002 *	OPLOC Dept 97 (DAFS)	CAPS	All					125,473	125,473
Sep 23-27, 2002 *	OPLOC Limestone	IAPS	All					257,835	257,835
For these the on site team will be core team members plus others (Reservists, etc)				4,086,373	4,082,009	544,100	1,635,725	5,201,855	15,549,862
* These revised dates are subject to				??? = Unavailable					
				Work Counts Source - 11/15/01 Briefing Holly Nails (DFAS-BT/CC)					

# Department of Defense Education Activity Comments



DEPARTMENT OF DEFENSE  
EDUCATION ACTIVITY  
4040 NORTH FAIRFAX DRIVE  
ARLINGTON, VIRGINIA 22203-1635

APR 23 2002

MEMORANDUM FOR INSPECTOR GENERAL, DOD

SUBJECT: Draft Audit Report, on "Controls Over the Computerized Accounts Payable System at Defense Finance and Accounting Service Columbus (Project No. D2000F1-0248.002)"

The Department of Defense Education Activity (DoDEA) has reviewed the draft audit report as requested and submits the following comments.

Pursuant to your recommendation, we have examined the communication between our schools and contracting activities, and Defense Finance and Accounting Service (DFAS) paying offices. We concur with your report's conclusion that appropriate methods of communication should reduce the need for Fast Payment procedures; and have undertaken changes to our contracting operations which should reduce DoDEA's future need for them as a means of ensuring timely reimbursement to our vendors.

In December 2000, DoDEA's Associate Director for Management initiated Bottoms Up Reviews of our contracting operations worldwide. The purpose of these reviews was to adopt state of the art procurement methods, identify opportunities to maximize local contracting, and improve the ease and accessibility of ordering capabilities at the school level. By April 1, 2001, all DoDEA contracts for curriculum materials and educational supplies had been modified to permit electronic ordering with the International Merchants Purchase Authorization Card (IMPAC). Also, responsibility for purchases under these contracts was transferred from the DoDEA Education Supplies Procurement Office (DESPO) in Richmond, Va. to our overseas procurement offices and school based IMPAC cardholders.

Two factors instrumental in this change were the widespread availability of Internet ordering capabilities, and the \$25,000 threshold for overseas IMPAC purchases—the same dollar threshold as Fast Payment procedures. As a result of these changes, requirements previously filled by DESPO under orders authorizing Fast Payment procedures are now being processed locally as credit card transactions that do not require them.

While the use of IMPAC as a method of purchase and payment has become widespread throughout this agency, and has facilitated prompt reimbursement to vendors, it should be noted that under certain circumstances the need for Fast Payment procedures still exists to mitigate the effects of less than adequate communications. Paragraph 13.402(b) of the Federal Acquisition Regulation (FAR) authorizes Fast Payment procedures "where there is both a geographical separation and a lack of adequate communication facilities between Government receiving and



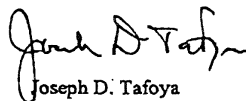
disbursing activities that will make it impractical to make timely payments based on evidence of Government acceptance.”

Since October 1, 2001, DESPO has not had access to the Base Operating Supply System (BOSS) that uploads receiving information for electronic transmission to DFAS Columbus. Instead it has had to resort to mail and facsimile machines to transmit such data. Contrary to the opinion expressed in the draft report (Processing Vendor Payments, pp. 10), reliance on fax machines as a primary means of communication does not ensure the timely matching and posting of receiving reports and invoices prior to payment.

This year alone DESPO expects to issue approximately 900 delivery orders for supplies. In the absence of Fast Payment procedures, documentation for each of these transactions has to be matched before DFAS can authorize payment. Contracting offices must forward to DFAS copies of all applicable contracts and orders by which items have been procured; vendors must fax or mail their invoices; and schools must fax all receiving reports evidencing acceptance of all full or partial shipments. The difficulties and delays inherent in this matching process are further compounded by the time needed for an overseas freight shipment to reach its destination. Transit time can add 60 to 90 days from the date a vendor sends out an order.

Such delays place an undue burden on DoDEA's contractors, especially small businesses, which may have to wait upwards of 4 months to receive payment from DFAS. If vendors have to wait so long to be paid, DoDEA's ability to competitively procure items for our schools could be seriously hindered. As a safeguard when using Fast Payment procedures, DoDEA has had in place for many years arrangements with our suppliers whereby schools receive replacements should there be missing or damaged items in a shipment, or an entire shipment is lost. Under such arrangements our agency has not experienced any significant material or monetary loss due to the use of Fast Payment procedures. Instead, their use has permitted us to increase the level of small business participation in our acquisition programs.

On March 14, 2002, I announced the closure of DESPO effective October 1, 2002, and the consolidation of its contracting operations with those at DoDEA Headquarters. DESPO has consistently been the only contracting office within this agency to use Fast Payment procedures. During this transition period we will be examining both our current and future invoicing and payment practices, as well as the feasibility of incorporating into our operations such e-commerce initiatives as Wide Area Workflow for the web based tracking of invoices, receipts, and acceptance documents. We expect that the measures put in place during this period will continue to effectively meet the needs our schools for supplies and curriculum materials, while providing timely and efficient reimbursement to our vendors.

  
Joseph D. Tafoya  
Director

## **Team Members**

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